

**Tennessee Board of Regents
Motlow State Community College**

**For the Years Ended
June 30, 2002, and June 30, 2001**

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**STATE OF TENNESSEE
COMPTROLLER OF THE TREASURY**

State Capitol
Nashville, Tennessee 37243-0260
(615) 741-2501

John G. Morgan
Comptroller

September 9, 2003

The Honorable Phil Bredesen, Governor
and
Members of the General Assembly
State Capitol
Nashville, Tennessee 37243
and

The Honorable Charles W. Manning, Chancellor
Tennessee Board of Regents
1415 Murfreesboro Road, Suite 350
Nashville, Tennessee 37217
and

Dr. Arthur L. Walker, President
Motlow State Community College
P. O. Box 88100
Tullahoma, Tennessee 37388-8100

Ladies and Gentlemen:

Transmitted herewith is the financial and compliance audit of the Tennessee Board of Regents, Motlow State Community College, for the years ended June 30, 2002, and June 30, 2001. You will note from the independent auditor's report that an unqualified opinion was given on the fairness of the presentation of the financial statements.

Consideration of internal control over financial reporting and tests of compliance resulted in no audit findings.

Sincerely,

John G. Morgan
Comptroller of the Treasury

JGM/sds
03/025

State of Tennessee

Audit Highlights

Comptroller of the Treasury

Division of State Audit

Financial and Compliance Audit
Motlow State Community College
For the Years Ended June 30, 2002, and June 30, 2001

AUDIT OBJECTIVES

The objectives of the audit were to consider the college's internal control over financial reporting; to determine compliance with certain provisions of laws, regulations, contracts, and grants; to determine the fairness of the presentation of the financial statements; and to recommend appropriate actions to correct any deficiencies.

AUDIT FINDINGS

The audit report contains no findings.

OPINION ON THE FINANCIAL STATEMENTS

The opinion on the financial statements is unqualified.

"Audit Highlights" is a summary of the audit report. To obtain the complete audit report, please contact

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Audit Report
Tennessee Board of Regents
Motlow State Community College
For the Years Ended June 30, 2002, and June 30, 2001

TABLE OF CONTENTS

	<u>Exhibit</u>	<u>Page</u>
INTRODUCTION		1
Post-Audit Authority		1
Background		1
Organization		1
AUDIT SCOPE		2
OBJECTIVES OF THE AUDIT		2
OBSERVATIONS AND COMMENTS		3
PRIOR AUDIT FINDINGS		2
RESULTS OF THE AUDIT		3
Audit Conclusions		3
Report on Compliance and on Internal Control Over Financial Reporting Based on an Audit of Financial Statements Performed in Accordance With <i>Government Auditing Standards</i>		4
FINANCIAL SECTION		6
Independent Auditor's Report for FY 2002		6
Management's Discussion and Analysis		8
Financial Statements for FY 2002		
Statement of Net Assets	A	18
Statement of Revenues, Expenses, and Changes in Net Assets	B	19
Statement of Cash Flows	C	20
Notes to the Financial Statements		22

TABLE OF CONTENTS (CONT.)

	<u>Exhibit</u>	<u>Page</u>
Independent Auditor's Report for FY 2001		35
Financial Statements for FY 2001		
Balance Sheet	D	37
Statement of Changes in Fund Balances	E	39
Statement of Current Funds Revenues, Expenditures, and Other Changes	F	40
Notes to the Financial Statements		41

**Tennessee Board of Regents
Motlow State Community College
For the Years Ended June 30, 2002, and June 30, 2001**

INTRODUCTION

POST-AUDIT AUTHORITY

This is a report on the financial and compliance audit of the Tennessee Board of Regents, Motlow State Community College. The audit was conducted pursuant to Section 4-3-304, *Tennessee Code Annotated*, which authorizes the Department of Audit to “perform currently a post-audit of all accounts and other financial records of the state government, and of any department, institution, office, or agency thereof in accordance with generally accepted auditing standards and in accordance with such procedures as may be established by the comptroller.”

Section 8-4-109, *Tennessee Code Annotated*, authorizes the Comptroller of the Treasury to audit any books and records of any governmental entity that handles public funds when the Comptroller considers an audit to be necessary or appropriate.

BACKGROUND

Tennessee’s community college system was created in 1967 when the General Assembly authorized the State Department of Education to establish several community colleges throughout the state. On June 13, 1967, the State Board of Education selected Tullahoma as the site of a community college to be located in Middle Tennessee. Motlow State Community College’s first classes began in September 1969.

ORGANIZATION

The governance of Motlow State Community College is vested in the Tennessee Board of Regents. The Governor, the Commissioner of Education, the Commissioner of Agriculture, and the Director of the Tennessee Higher Education Commission serve *ex officio* on this board. The chief administrative officer of the college is the president, who is assisted and advised by members of the faculty and administrative staff.

AUDIT SCOPE

The audit was limited to the period July 1, 2000, through June 30, 2002, and was conducted in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Financial statements are presented for the years ended June 30, 2002, and June 30, 2001. The financial statements for the year ended June 30, 2002, are presented on an entity-wide perspective as required by the implementation of Governmental Accounting Standards Board Statements 34 and 35. The financial statements for the year ended June 30, 2001, are presented on the fund-group perspective that was previously required. Motlow State Community College is an institution of the Tennessee Board of Regents, which is an integral part of state government. As such, the Tennessee Board of Regents has been included as a component unit in the *Tennessee Comprehensive Annual Financial Report*.

OBJECTIVES OF THE AUDIT

The objectives of the audit were

1. to consider the college's internal control over financial reporting to determine auditing procedures for the purpose of expressing an opinion on the financial statements;
2. to determine compliance with certain provisions of laws, regulations, contracts, and grants;
3. to determine the fairness of the presentation of the financial statements; and
4. to recommend appropriate actions to correct any deficiencies.

PRIOR AUDIT FINDINGS

There were no findings in the prior audit report.

OBSERVATIONS AND COMMENTS

Motlow State Community College serves as the lead institution under agreements with the Tennessee Technology Center at McMinnville, the Tennessee Technology Center at Murfreesboro, and the Tennessee Technology Center at Shelbyville. Under these agreements, Motlow State Community College performs the accounting and reporting functions for the centers. The chief administrative officer of each center is the director, who is assisted and advised by members of the faculty and administrative staff. Each director is responsible to the Chancellor of the Tennessee Board of Regents.

RESULTS OF THE AUDIT

AUDIT CONCLUSIONS

Internal Control

As part of the audit of the college's financial statements for the years ended June 30, 2002, and June 30, 2001, we considered internal control over financial reporting to determine auditing procedures for the purpose of expressing an opinion on the financial statements, as required by auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Consideration of internal control over financial reporting disclosed no material weaknesses.

Compliance

The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

Fairness of Financial Statement Presentation

The Division of State Audit has rendered an unqualified opinion on the college's financial statements.



**STATE OF TENNESSEE
COMPTROLLER OF THE TREASURY
DEPARTMENT OF AUDIT
DIVISION OF STATE AUDIT**

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**Report on Compliance and on Internal Control
Over Financial Reporting Based on an Audit of
Financial Statements Performed in Accordance With
*Government Auditing Standards***

May 29, 2003

The Honorable John G. Morgan
Comptroller of the Treasury
State Capitol
Nashville, Tennessee 37243

Dear Mr. Morgan:

We have audited the financial statements of Motlow State Community College, an institution of the Tennessee Board of Regents, which is a component unit of the State of Tennessee, as of and for the years ended June 30, 2002, and June 30, 2001, and have issued our report thereon dated May 29, 2003. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. As discussed in Note 11, during the year ended June 30, 2002, the college implemented GASB Statement 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*, and GASB Statement 35, *Basic Financial Statements—and Management's Discussion and Analysis—for Public Colleges and Universities*. The college also implemented GASB Statement 37, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments: Omnibus*, and GASB Statement 38, *Certain Financial Statement Note Disclosures*. During the year ended June 30, 2001, the college implemented GASB Statement 33, *Accounting and Financial Reporting for Nonexchange Transactions*.

The Honorable John G. Morgan
May 29, 2003
Page Two

Compliance

As part of obtaining reasonable assurance about whether the college's financial statements are free of material misstatement, we performed tests of the college's compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under *Government Auditing Standards*.

We did, however, note an immaterial instance of noncompliance, which we have reported to the college's management in a separate letter.

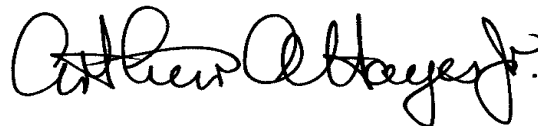
Internal Control Over Financial Reporting

In planning and performing our audit, we considered the college's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

However, we noted a matter involving the internal control over financial reporting, which we have reported to the college's management in a separate letter.

This report is intended solely for the information and use of the General Assembly of the State of Tennessee and management and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record.

Sincerely,

A handwritten signature in black ink, appearing to read "Arthur A. Hayes, Jr.", with a stylized, cursive script.

Arthur A. Hayes, Jr., CPA,
Director

AAH/sds



**STATE OF TENNESSEE
COMPTROLLER OF THE TREASURY
DEPARTMENT OF AUDIT
DIVISION OF STATE AUDIT
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Independent Auditor's Report

May 29, 2003

The Honorable John G. Morgan
Comptroller of the Treasury
State Capitol
Nashville, Tennessee 37243

Dear Mr. Morgan:

We have audited the accompanying statement of net assets of Motlow State Community College, an institution of the Tennessee Board of Regents, which is a component unit of the State of Tennessee, as of June 30, 2002, and the related statements of revenues, expenses, and changes in net assets and cash flows for the year then ended. These financial statements are the responsibility of the college's management. Our responsibility is to express an opinion on these financial statements, based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Tennessee Board of Regents, Motlow State Community College, as of June 30, 2002, and the revenues, expenses, and changes in net assets and the cash flows for the year then ended in conformity with accounting principles generally accepted in the United States of America.

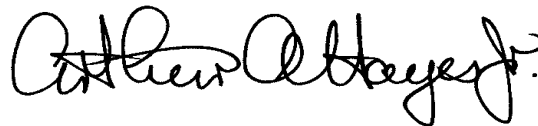
The Honorable John G. Morgan
May 29, 2003
Page Two

As discussed in Note 11, the college implemented GASB Statement 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*, and GASB Statement 35, *Basic Financial Statements—and Management's Discussion and Analysis—for Public Colleges and Universities*. The college also implemented GASB Statement 37, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments: Omnibus*, and GASB Statement 38, *Certain Financial Statement Note Disclosures*.

The management's discussion and analysis on pages 8 through 17 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

In accordance with *Government Auditing Standards*, we have also issued our report dated May 29, 2003, on our consideration of the college's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Sincerely,

A handwritten signature in black ink, reading "Arthur A. Hayes, Jr." with a stylized flourish at the end.

Arthur A. Hayes, Jr., CPA,
Director

AAH/sds

Management's Discussion and Analysis

This section of Motlow State Community College's annual financial report presents a discussion and analysis of the financial performance of the college during the fiscal year ended June 30, 2002. This discussion has been prepared by management along with the financial statements and related note disclosures and should be read in conjunction with them. The financial statements, notes, and this discussion are the responsibility of management.

Since this is a transition year for the new financial reporting format required by the Governmental Accounting Standards Board's Statement 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*, and No. 35, *Basic Financial Statements—and Management's Discussion and Analysis—for Public Colleges and Universities*, only one year of information is presented in the financial statements and this discussion. Comparative information will be presented in future years.

Using This Annual Report

This report consists of three basic financial statements. The statement of net assets; the statement of revenues, expenses, and changes in net assets; and the statement of cash flows provide information on Motlow State Community College as a whole and present a long-term view of the college's finances.

The Statement of Net Assets

The statement of net assets presents the financial position of the college at the end of the fiscal year and includes all assets and liabilities of the college. The difference between total assets and total liabilities—net assets—is an indicator of the current financial condition of the college. Assets and liabilities are generally measured using current values. One notable exception is capital assets, which are stated at historical cost less an allowance for depreciation.

Net assets are divided into three major categories. The first category, invested in capital assets, net of related debt, provides the college's equity in property, plant, and equipment owned by the college. The next asset category is restricted net assets, which is divided into two categories, nonexpendable and expendable. The college has no nonexpendable restricted net assets. Expendable restricted net assets are available for expenditure by the college but must be spent for purposes as determined by donors and/or external entities that have placed time or purpose restrictions on the use of the assets. The final category is unrestricted net assets. Unrestricted assets are available to the institution for any lawful purpose of the institution.

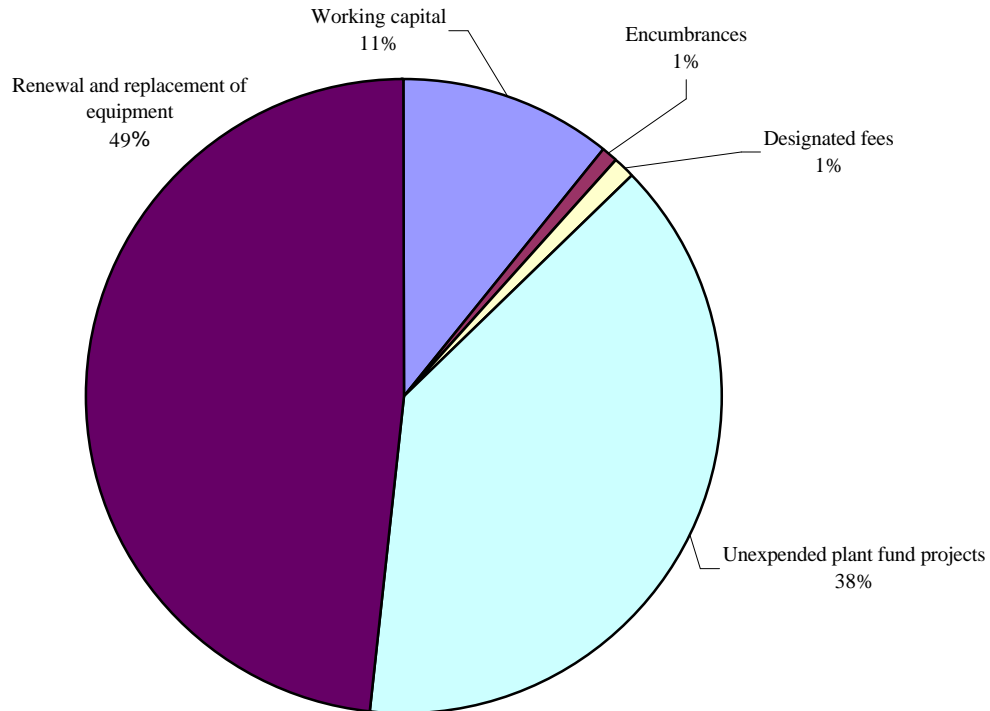
Statement of Net Assets
(in thousands of dollars)

	<u>2002</u>
Assets:	
Current assets	\$ 3,984
Capital assets, net	16,047
Other assets	3,672
Total assets	<u>23,703</u>
 Liabilities:	
Current liabilities	5,495
Noncurrent liabilities	307
Total liabilities	<u>5,802</u>
 Net assets:	
Invested in capital assets, net of related debt	16,047
Restricted – expendable	148
Unrestricted	1,706
Total net assets	<u><u>\$17,901</u></u>

- Net capital assets represent 68% of the total assets and 90% of the total net assets. Capital assets include buildings, equipment, land, land improvements, infrastructure, and library holdings.
- Buildings valued at \$13.8 million net of depreciation comprise the majority of the capital assets.
- The largest portion (about 64%) of the current liabilities is deposits held in custody for the Motlow State Community College Foundation.

Many of the college's unrestricted net assets have been designated or reserved for specific purposes such as working capital, encumbrances, designated fees, unexpended plant fund projects, and renewal and replacement of equipment. The following graph shows the allocations:

Allocations of Unrestricted Net Assets



The Statement of Revenues, Expenses, and Changes in Net Assets

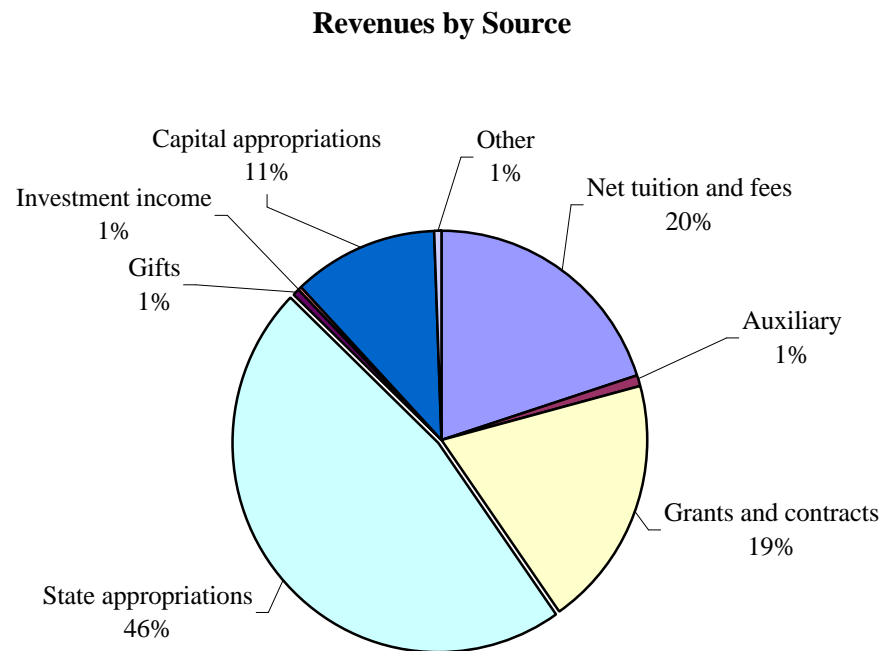
The statement of revenues, expenses, and changes in net assets presents the operating results of the college, as well as the nonoperating revenues and expenses. Annual state appropriations, while budgeted for operations, are considered nonoperating revenues according to generally accepted accounting principles.

Statement of Revenues, Expenses, and Changes in Net Assets
(in thousands of dollars)

Operating revenues:	
Net tuition and fees	\$3,696
Auxiliary enterprises	160
Grants and contracts	3,572
Other	94
Total operating revenues	<u>7,522</u>
Operating expenses	<u>17,843</u>
Operating loss	<u>(10,321)</u>
Nonoperating revenues and expenses:	
State appropriations	8,664
Gifts	89
Investment income	91
Other revenues and expenses	1
Total nonoperating revenues and expenses	<u>8,845</u>
Income (loss) before other revenues, expenses, gains, or losses	<u>(1,476)</u>
Other revenues, expenses, gains, or losses:	
Capital appropriations	2,088
Other	(33)
Total other revenues, expenses, gains, or losses	<u>2,055</u>
Increase (decrease) in net assets	<u>579</u>
Net assets at beginning of year, as originally reported	26,899
Cumulative effects of changes in accounting principle	<u>(9,577)</u>
Net assets at beginning of period, restated	<u>17,322</u>
Net assets at end of year	<u><u>\$17,901</u></u>

Revenues

The following is a graphic illustration of revenues by source (both operating and nonoperating), which are used to fund the college's operating activities for the year ended June 30, 2002.



- Student tuition and fees of approximately \$3.7 million represent 49% of the operating revenue generated.
- State appropriations of \$8.6 million (46% of the total revenues generated) are classified as nonoperating revenues representing the largest single portion of total revenues.
- Auxiliary operations that include the bookstore, cafeteria, and vending are outsourced, and the college received \$159,418.47 in commissions from vendors operating the auxiliaries. Commissions received represent 2% of the total operating revenues.
- Government grants and contracts of \$3.5 million represent 47% of the operating revenue and approximately 19% of the total revenue.
- Capital appropriations are funds appropriated by the state for capital projects currently in progress. These projects include building system equipment replacement, renovations to the gymnasium, a sewer system replacement, and the center for advanced technology.

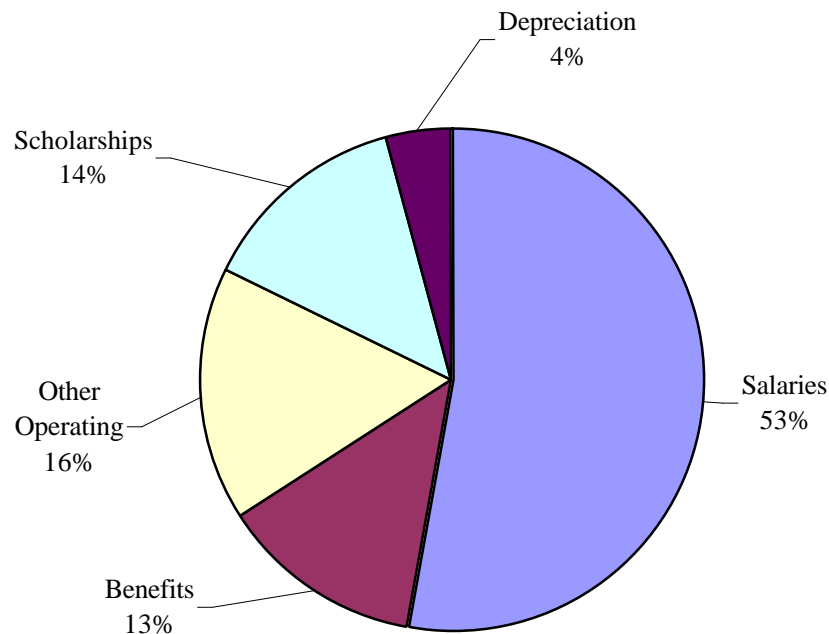
Expenses

Operating expenses can be displayed in two formats, natural classification and functional classification. Both formats are displayed below (in thousands of dollars).

Natural Classification

	<u>2002</u>
Salaries	\$9,454
Benefits	2,330
Other operating	2,903
Scholarships and fellowships	2,447
Depreciation	709
Total operating expenses	<u>\$17,843</u>

Operating Expenses by Natural Classification



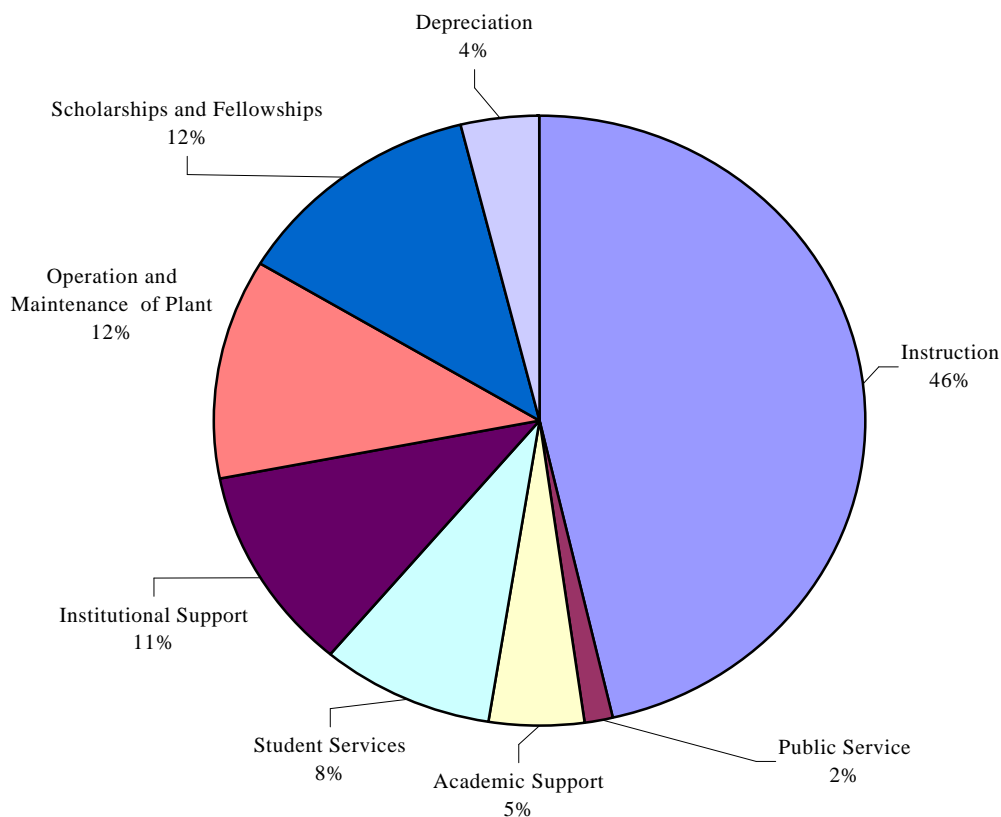
- Salaries and benefits constitute 66% of the institution's expenses. Salaries include salary payments to regular full-time faculty and staff, regular part-time faculty and staff, adjunct faculty, student salaries, and temporary staff.
- Scholarships provided are primarily for fees and books. Scholarship payments represent 14% of the total operating expenses.

- Depreciation is reflected on the college's statements this year for the first time due to a change in accounting principles adopted system-wide this year. Depreciation represents 4% of the total operating expenses.
- Other operating expenses include travel, office supplies, contracted labor, utilities, repair parts, rent, and other general supplies required for the operation of the institution. The other operating expenses are 16% of the total operating expenses.

Functional Classification

	<u>2002</u>
Instruction	\$8,234
Public service	271
Academic support	927
Student services	1,531
Institutional support	1,881
Operation and maintenance of plant	2,088
Scholarships and fellowships	2,202
Depreciation	709
Total operating expenses	<u>\$17,843</u>

Operating Expenses by Function



- The instructional component of the institution (which includes the functional areas of instruction, academic support, and public service) represents 53% of the total operating expenses.
- Student Services, which includes Admissions and Records, Counseling, Athletics, Student Organizations, etc., represents 8% of the total operating expenses.
- Institutional Support represents 11% of the total operating expenses.
- Operation and maintenance of plant represents 12% of the total operating expenses. An attachment to the state appropriation bill requires that 100% of the funds appropriated by the state for maintenance and operation of plant facilities be fully expended each year to ensure proper maintenance to facilities and equipment.
- Scholarships and Fellowships represent 12% of the total operating expenses. The majority of these expenditures are for federal financial aid, which includes Pell, SEOG, and Work Study.
- Depreciation represents 4% of the total operating expenses. This is the institution's initial year to record depreciation on its statements, and this recording is in compliance with guidelines referenced in GASB Statements Number 34 and 35.

The Statement of Cash Flows

The statement of cash flows provides information about cash receipts and cash payments during the year. This statement also assists users in assessing the college's ability to generate net cash flows, its ability to meet its obligations as they come due, and its need for external financing.

Statement of Cash Flows (in thousands of dollars)

	<u>2002</u>
Cash provided (used) by:	
Operating activities	\$(9,470)
Noncapital financing activities	8,639
Investing activities	511
Capital and related financing activities	474
Net increase (decrease) in cash	<u>\$154</u>
Cash, beginning of year	<u>4,622</u>
Cash, end of year	<u><u>\$4,776</u></u>

- The material sources of cash from current operations are maintenance fees, other student fees, and tuition. The material uses of cash for current operations are for salaries and

benefits, purchasing operational supplies, payment for contracted services, and scholarships to students.

- Noncapital financing activities are primarily from state appropriations.
- Investing activities are from interest received from the Tennessee Local Government Investment Pool and earnings in the Motlow State Community College Foundation Endowment Funds managed by Regions Trust.
- Capital and related financing activities are from state appropriations for capital projects.
- The cash increased by \$154,000 for the year, which improved the institution's liquidity.

Capital Asset and Debt Administration

Capital Assets

At June 30, 2002, Motlow State Community College had \$16,046,798.72 invested in capital assets, net of accumulated depreciation of \$6,507,077.57. Depreciation charges totaled \$708,966.70 for the current fiscal year. Details of these assets are shown below.

Schedule of Capital Assets, Net of Depreciation (in thousands of dollars)

	<u>2002</u>
Land	\$171
Land improvements & infrastructure	519
Buildings	13,853
Equipment	563
Library holdings	285
Projects in progress	656
Total	<u><u>\$16,047</u></u>

- The major capital asset additions completed during the fiscal year included the completion of the Sundquist Center for Advanced Technologies and the building system equipment replacement project. These projects were funded by state capital appropriations.

During the fiscal year 2003-2004, three significant projects are planned. The first project is the renovation of the gymnasium, which will be funded by state capital appropriations. The second is phase 3 of the building system replacement project, which is funded by state capital appropriation funds. The third project is the building of a women's softball complex, which will include a dressing room for the players, a press box, a concession stand, and public restrooms. This project will be funded by private gifts that have been given to the Motlow State Community College Foundation.

More detailed information about the college's capital assets is presented in Note 6 to the financial statements.

Economic Factors That Will Affect the Future

In July 2002 after a shut-down of state government for four days, the Tennessee state legislature enacted a one percent sales tax increase to balance its 2002-2003 budget. Higher education in Tennessee will receive about \$15 million of improvement funds by virtue of this action, and these funds will be distributed primarily based on enrollment growth during the previous year(s). For Motlow State Community College, the projected improvement funds from the state appropriation for 2002-2003 will be \$436,000. In addition to the anticipated appropriation increase, the Tennessee Board of Regents (TBR), the governing board of the college, approved a 7 ½ percent increase in student maintenance fees and tuition to be effective in the fall 2002 term.

Another economic factor that may affect the future is another major increase in the cost of medical insurance coverage. In January of 2002, medical insurance increased by 25%. For the six months from January to June 2002, the cost to the college was about \$80,000. That cost annualizes during the fiscal year 2002-2003 to be about \$160,000, and all indications reflect that there will be another substantial increase in medical insurance rates in January 2003.

TENNESSEE BOARD OF REGENTS
MOTLOW STATE COMMUNITY COLLEGE
STATEMENT OF NET ASSETS
JUNE 30, 2002

ASSETS

Current assets:	
Cash and cash equivalents (Notes 2 and 3)	\$ 3,269,104.23
Accounts, notes, and grants receivable (net) (Note 5)	386,804.74
Inventories	2,110.35
Prepaid expenses and deferred charges	2,947.50
Accrued interest receivable	2,731.51
Other assets	<u>320,000.00</u>
Total current assets	<u>3,983,698.33</u>
Noncurrent assets:	
Cash and cash equivalents (Notes 2 and 3)	1,306,417.26
Investments (Note 4)	2,165,966.62
LGIP deposit-capital projects	200,000.00
Capital assets (net) (Note 6)	<u>16,046,798.72</u>
Total noncurrent assets	<u>19,719,182.60</u>
Total assets	<u>23,702,880.93</u>

LIABILITIES

Current liabilities:	
Accounts payable	43,265.55
Accrued liabilities	721,033.48
Due to grantors	1.44
Deferred revenue	186,910.90
Compensated absences (Note 7)	195,332.90
Deposits held in custody for others	<u>4,348,657.34</u>
Total current liabilities	<u>5,495,201.61</u>
Noncurrent liabilities:	
Compensated absences (Note 7)	<u>306,386.66</u>
Total noncurrent liabilities	<u>306,386.66</u>
Total liabilities	<u>5,801,588.27</u>

NET ASSETS

Invested in capital assets, net of related debt	16,046,798.72
Restricted:	
Expendable:	
Scholarships and fellowships	1,461.11
Instructional departments	450.00
Loans	2,227.36
Other	144,250.14
Unrestricted	<u>1,706,105.33</u>
Total net assets	<u>\$ 17,901,292.66</u>

The notes to the financial statements are an integral part of this statement.

TENNESSEE BOARD OF REGENTS
MOTLOW STATE COMMUNITY COLLEGE
STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET ASSETS
FOR THE YEAR ENDED JUNE 30, 2002

REVENUES

Operating revenues	
Student tuition and fees (net of scholarship allowances of \$1,199,356.44)	\$ 3,696,128.25
Governmental grants and contracts	3,572,056.28
Sales and services of educational departments	805.27
Auxiliary enterprises:	
Bookstore	150,401.00
Other auxiliaries	8,733.04
Interest earned on loans to students	284.43
Other operating revenues	93,483.98
	<hr/>
Total operating revenue	7,521,892.25

EXPENSES

Operating expenses	
Salaries and wages	9,453,819.95
Fringe benefits	2,329,700.56
Utilities, supplies, and other services	2,903,060.21
Scholarships and fellowships	2,446,979.82
Depreciation expense	708,966.70
	<hr/>
Total operating expenses	17,842,527.24
	<hr/>
Operating income (loss)	(10,320,634.99)

NONOPERATING REVENUES (EXPENSES)

State appropriations	8,663,570.00
Gifts	88,753.98
Grants and contracts	1,000.00
Investment income	91,538.28
	<hr/>
Net nonoperating revenues	8,844,862.26
	<hr/>
Income (loss) before other revenues, expenses, gains, or losses	(1,475,772.73)
	<hr/>
Capital appropriations	2,088,344.73
Other	(32,910.05)
	<hr/>
Total other revenues	2,055,434.68
	<hr/>
Increase in net assets	579,661.95

NET ASSETS

Net assets at beginning of year	26,898,622.63
Cumulative effects of changes in accounting principle (Note 11)	(9,576,991.92)
	<hr/>
Net assets at beginning of year, restated	17,321,630.71
	<hr/>
Net assets at end of year	\$ 17,901,292.66

The notes to the financial statements are an integral part of this statement.

TENNESSEE BOARD OF REGENTS
MOTLOW STATE COMMUNITY COLLEGE
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2002

CASH FLOWS FROM OPERATING ACTIVITIES

Tuition and fees	\$ 3,735,228.42
Grants and contracts	3,866,728.13
Sales and services of educational activities	805.27
Payments to suppliers and vendors	(3,032,073.90)
Payments to employees	(9,706,555.62)
Payments for benefits	(2,139,486.84)
Payments for scholarships and fellowships	(2,446,979.82)
Interest earned on loans to students	284.43
Auxiliary enterprises:	
Bookstore	150,401.00
Other auxiliaries	8,733.04
Other receipts (payments)	93,281.10
Net cash provided (used) by operating activities	<u>(9,469,634.79)</u>

CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES

State appropriations	8,582,770.00
Gifts and grants for other than capital or endowment purposes	89,753.98
Federal student loan receipts	2,282,040.00
Federal student loan disbursements	(2,282,040.00)
Agency transactions	(2,911.47)
Other noncapital receipts (payments)	<u>(31,304.00)</u>
Net cash provided (used) by noncapital financing activities	<u>8,638,308.51</u>

CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES

Capital appropriations	2,088,344.73
Purchase of capital assets and construction	(1,613,630.89)
Other capital and related financing receipts (payments)	<u>(351.73)</u>
Net cash provided (used) by capital and related financing activities	<u>474,362.11</u>

CASH FLOWS FROM INVESTING ACTIVITIES

Proceeds from sales and maturities of investments	617,645.80
Interest on investments	92,933.72
Purchase of investments	<u>(200,000.00)</u>
Net cash provided (used) by investing activities	<u>510,579.52</u>

Net increase (decrease) in cash and cash equivalents	153,615.35
Cash and cash equivalents at beginning of year	<u>4,621,906.14</u>
Cash and cash equivalents at end of year	<u><u>\$ 4,775,521.49</u></u>

TENNESSEE BOARD OF REGENTS
MOTLOW STATE COMMUNITY COLLEGE
STATEMENT OF CASH FLOWS
FOR THE YEAR ENDED JUNE 30, 2002

**RECONCILIATION OF NET OPERATING LOSS TO NET CASH
PROVIDED (USED) BY OPERATING ACTIVITIES:**

Operating loss	\$ (10,320,634.99)
Adjustments to reconcile operating loss to net cash provided (used) by operating activities:	
Depreciation expense	708,966.70
Changes in assets and liabilities:	
Receivables, net	275,746.38
Inventories	4,866.01
Prepaid expenses and deferred charges	(1,887.29)
Accounts payable	(139,787.18)
Accrued liabilities	(79,922.54)
Deferred revenue	64,829.29
Compensated absences	18,188.83
Net cash provided (used) by operations	\$ <u>(9,469,634.79)</u>

The notes to the financial statements are an integral part of this statement.

**Tennessee Board of Regents
Motlow State Community College
Notes to the Financial Statements
June 30, 2002**

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

The college is a part of the State University and Community College System of Tennessee (Tennessee Board of Regents). This system is a component unit of the State of Tennessee because the state appoints a majority of the system's governing body and provides financial support; the system is discretely presented in the *Tennessee Comprehensive Annual Financial Report*.

Basis of Presentation

The financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board (GASB). In June 1999, the GASB issued Statement 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*. This was followed in November 1999 by GASB Statement 35, *Basic Financial Statements—and Management's Discussion and Analysis—for Public Colleges and Universities*. The financial presentation required by those statements provides a comprehensive, entity-wide perspective of the college's assets, liabilities, net assets, revenues, expenses, changes in net assets, and cash flows, and replaces the fund-group perspective previously required.

Significant accounting changes made in order to comply with the new requirements include (1) adoption of depreciation on capital assets and (2) reporting summer school revenues and expenses between fiscal years rather than in one fiscal year.

Basis of Accounting

For financial statement purposes, the college is considered a special-purpose government engaged only in business-type activities. Accordingly, the financial statements have been prepared using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned, and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met. All significant interfund transactions have been eliminated.

**Tennessee Board of Regents
Motlow State Community College
Notes to the Financial Statements (Cont.)
June 30, 2002**

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. The college has the option of following private-sector guidance issued subsequent to November 30, 1989, subject to the above limitation. The college has elected not to follow private-sector guidance issued subsequent to November 30, 1989.

Amounts reported as operating revenues include (1) tuition and fees, net of waivers and discounts; (2) federal, state, local, and private grants and contracts; (3) sales and services of auxiliary enterprises; and (4) other sources of revenue. Operating expenses for the college include (1) salaries and wages; (2) employee benefits; (3) scholarships and fellowships; (4) depreciation; and (5) utilities, supplies, and other services.

All other activity is nonoperating in nature and includes (1) state appropriations for operations; (2) investment income; and (3) nonoperating gifts and grants.

When both restricted and unrestricted resources are available for use, generally it is the college's policy to use the restricted resources first.

LGIP Deposit – Capital Projects

Payments related to the college's capital projects are made by the State of Tennessee's Department of Finance and Administration. The college's estimated local share of the cost of each project is held in a separate Local Government Investment Pool (LGIP) account. As expenses are incurred, funds are withdrawn from the LGIP account by the Tennessee Board of Regents and transferred to the Department of Finance and Administration. The funds in the account are not available to the college for any other purpose until the project is completed and the Tennessee Board of Regents releases any remaining funds.

Inventories

Inventories are valued at the lower of cost or market on a first-in, first-out basis.

**Tennessee Board of Regents
Motlow State Community College
Notes to the Financial Statements (Cont.)
June 30, 2002**

Compensated Absences

The college's employees accrue annual leave at varying rates, depending on length of service or classification. Some employees also earn compensatory time. The amount of these liabilities and their related benefits are reported in the statement of net assets.

Capital Assets

Capital assets, which include property, plant, equipment, and library holdings, are reported in the statement of net assets at historical cost or at fair value at date of donation, less accumulated depreciation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend the asset's useful life are not capitalized.

A capitalization threshold of \$100,000 is used for buildings; \$50,000 for additions and improvements to land, buildings, or infrastructure; and \$5,000 for equipment.

These assets, with the exception of land, are depreciated using the straight-line method over the estimated useful lives, which range from 5 to 40 years.

Motlow State Community College Foundation

The college is the sole beneficiary of the Motlow State Community College Foundation. A board independent of the college controls this private, nonprofit foundation. The college handles the financial records, investments, and other financial transactions, and the assets and liabilities of the foundation are included on the college's statement of net assets.

Net Assets

The college's net assets are classified as follows:

Invested in capital assets, net of related debt – This represents the college's total investment in capital assets, net of outstanding debt obligations related to those capital assets. To the extent debt has been incurred but not yet expended for capital assets, such amounts are not included as a component of invested in capital assets, net of related debt.

**Tennessee Board of Regents
Motlow State Community College
Notes to the Financial Statements (Cont.)
June 30, 2002**

Expendable restricted net assets – Expendable restricted net assets include resources which the college is legally or contractually obligated to spend in accordance with restrictions imposed by external third parties.

Unrestricted net assets – Unrestricted net assets represent resources derived from student tuition and fees, state appropriations, and sales and services of educational departments and auxiliary enterprises. These resources are used for transactions relating to the educational and general operations of the college, and may be used at the discretion of the college to meet current expenses for any purpose. The auxiliary enterprises are substantially self-supporting activities that provide services for students, faculty, and staff.

Scholarship Discounts and Allowances

Student tuition and fee revenues, and certain other revenues from students, are reported net of scholarship discounts and allowances in the statement of revenues, expenses, and changes in net assets. Scholarship discounts and allowances are the difference between the stated charge for goods and services provided by the college and the amount that is paid by the student and/or third parties making payments on the student's behalf. Certain governmental grants, such as Pell grants, and other federal, state, or nongovernmental programs, are recorded as either operating or nonoperating revenues in the college's financial statements. To the extent that revenues from such programs are used to satisfy tuition and fees and other student charges, the college has recorded a scholarship discount and allowance.

Comparative Data

Comparative financial statements are not presented as the college implemented GASB Statements 34, 35, 37, and 38, and comparative statements are not required. Certain amounts presented in prior years' data have been reclassified to be consistent with the current year's presentation.

NOTE 2. CASH AND CASH EQUIVALENTS

In addition to demand deposits and petty cash on hand, this classification includes instruments which are readily convertible to known amounts of cash and which have original maturities of three months or less.

**Tennessee Board of Regents
Motlow State Community College
Notes to the Financial Statements (Cont.)
June 30, 2002**

At June 30, 2002, cash and cash equivalents consisted of \$208,620.37 in bank accounts, \$750.00 of petty cash on hand, \$352,910.90 in money market mutual funds, and \$4,013,240.22 in the State of Tennessee Local Government Investment Pool administered by the State Treasurer.

For purposes of the statement of cash flows, the university considers the LGIP deposit-capital projects to be a part of cash and cash equivalents.

NOTE 3. DEPOSITS

The laws of the State of Tennessee require that collateral be pledged to secure all uninsured deposits. Tennessee Board of Regents policies require that the market value of collateral pledged equal 115%, 100%, and 90% of the uninsured deposits at financial institutions participating in the collateral pool and 105% of the uninsured deposits at all other financial institutions. The pledge level for financial institutions participating in the collateral pool is based on financial criteria set by the Collateral Pool Board with the financially strongest institutions being eligible for the lowest pledge level.

The college's bank accounts are in financial institutions which participate in the bank collateral pool administered by the State Treasurer. The securities pledged to protect these accounts are pledged in the aggregate rather than against each individual account. The members of the pool may be required by agreement to pay an assessment to cover any deficiency. Under this additional assessment agreement, public fund accounts covered by the pool are considered to be insured for purposes of credit risk disclosure. Certificates of deposit held for the Motlow State Community College Foundation are covered by FDIC insurance.

The college also has deposits in the Local Government Investment Pool (LGIP) administered by the State Treasurer. The LGIP is part of the Pooled Investment Fund. The fund's investment policy and custodial credit risk are presented in the *Tennessee Comprehensive Annual Financial Report*. That report may be obtained by writing to the Tennessee Department of Finance and Administration, Division of Accounts, 14th Floor William R. Snodgrass Tennessee Tower, 312 Eighth Avenue North, Nashville, Tennessee 37243-0298, or by calling (615) 741-2140.

**Tennessee Board of Regents
Motlow State Community College
Notes to the Financial Statements (Cont.)
June 30, 2002**

NOTE 4. INVESTMENTS

The college is authorized by statute to invest funds in accordance with Tennessee Board of Regents policies. Under the current policy, funds other than endowments may be invested only in obligations of the United States or its agencies backed by the full faith and credit of the United States; repurchase agreements for United States securities; certificates of deposit in banks and savings and loan associations; bankers' acceptances; commercial paper; money market mutual funds; and the State of Tennessee Local Government Investment Pool. The policy requires that investments of endowments in equity securities be limited to funds from private gifts or other sources external to the college and that endowment investments be prudently diversified. The Motlow State Community College Foundation is authorized to invest funds in accordance with its board of directors' policies. All investments permitted to be reported at fair value under GASB Statement 31 are reported at fair value, including those with a maturity date of one year or less at the time of purchase. Certificates of deposit have been included with other deposits in Note 3 to determine the adequacy of collateral security pledged.

The foundation's investments are categorized below to indicate the level of risk assumed by the foundation at year-end. Category 1 consists of insured or registered investments or investments for which the securities are held by the foundation or its agent in the foundation's name. Category 2 consists of uninsured and unregistered investments for which the securities are held by the counterparty's trust department or agent in the foundation's name. Category 3 consists of uninsured and unregistered investments for which the securities are held by the counterparty or by its trust department or agent but not in the foundation's name.

**Tennessee Board of Regents
Motlow State Community College
Notes to the Financial Statements (Cont.)
June 30, 2002**

<u>June 30, 2002</u>	<u>Fair Value</u>
Category 2:	
U.S. government securities	\$565,236.91
Investments not susceptible to credit risk categorization:	
Mutual funds	1,553,640.61
Certificates of deposit classified as investments	400,000.00
Amount classified as cash equivalents	<u>(352,910.90)</u>
Total investments on the balance sheet	<u><u>\$2,165,966.62</u></u>

NOTE 5. RECEIVABLES

Receivables at June 30, 2002, included the following:

Student accounts receivable	\$107,821.88
Grants receivable	154,364.45
Notes receivable	13,004.86
Other receivables	<u>155,555.66</u>
Subtotal	430,746.85
Less allowance for doubtful accounts	<u>(43,942.11)</u>
Total receivables	<u><u>\$386,804.74</u></u>

Federal Perkins Loan Program funds at June 30, 2002, included the following:

Perkins loans receivable	\$ 10,422.70
Less allowance for doubtful accounts	<u>(10,422.70)</u>
Total	<u><u>\$ -</u></u>

**Tennessee Board of Regents
Motlow State Community College
Notes to the Financial Statements (Cont.)
June 30, 2002**

NOTE 6. CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2002, was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Transfers</u>	<u>Reductions</u>	<u>Ending Balance</u>
Land	\$171,100.00	\$ -	\$ -	\$ -	\$171,100.00
Land improvements and infrastructure	1,439,037.68	-	-	-	1,439,037.68
Buildings	13,543,150.71	-	4,520,517.35	-	18,063,668.06
Equipment	1,386,176.12	128,747.99	-	14,020.28	1,500,903.83
Library holdings	685,413.89	51,939.92	-	14,075.73	723,278.08
Projects in progress	<u>3,743,111.28</u>	<u>1,433,294.71</u>	<u>(4,520,517.35)</u>	<u>-</u>	<u>655,888.64</u>
Total	<u>20,967,989.68</u>	<u>1,613,982.62</u>	<u>-</u>	<u>28,096.01</u>	<u>22,553,876.29</u>
Less accumulated depreciation:					
Land improvements and infrastructure	864,657.89	55,077.81	-	-	919,735.70
Buildings	3,756,348.51	454,627.71	-	-	4,210,976.22
Equipment	823,732.48	126,933.30	-	12,414.23	938,251.55
Library holdings	<u>379,861.95</u>	<u>72,327.88</u>	<u>-</u>	<u>14,075.73</u>	<u>438,114.10</u>
Total accumulated depreciation	<u>5,824,600.83</u>	<u>708,966.70</u>	<u>-</u>	<u>26,489.96</u>	<u>6,507,077.57</u>
Capital assets, net	<u>\$15,143,388.85</u>	<u>\$905,015.92</u>	<u>\$ -</u>	<u>\$1,606.05</u>	<u>\$16,046,798.72</u>

NOTE 7. LONG-TERM LIABILITIES

Long-term liabilities activity for the year ended June 30, 2002, was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Current Portion</u>
Compensated absences	\$483,530.73	\$228,201.73	\$210,012.90	\$501,719.56	\$195,332.90

**Tennessee Board of Regents
Motlow State Community College
Notes to the Financial Statements (Cont.)
June 30, 2002**

NOTE 8. UNRESTRICTED NET ASSETS

Unrestricted net assets include funds that have been designated or reserved for specific purposes. These purposes include the following:

	<u>Amount</u>
Working capital	\$182,771.80
Encumbrances	15,751.21
Designated fees	19,541.94
Plant construction	642,089.23
Renewal and replacement of equipment	<u>842,400.46</u>
Total	<u><u>\$1,702,554.64</u></u>

NOTE 9. PENSION PLANS

A. Defined Benefit Plan

Tennessee Consolidated Retirement System

Plan Description - The college contributes to the State Employees, Teachers, and Higher Education Employees Pension Plan (SETHEEPP), a cost-sharing, multiple-employer, defined benefit pension plan administered by the Tennessee Consolidated Retirement System (TCRS). TCRS provides retirement, death, and disability benefits as well as annual cost-of-living adjustments to plan members and their beneficiaries. Title 8, Chapters 34-37, *Tennessee Code Annotated*, establishes benefit provisions. State statutes are amended by the Tennessee General Assembly.

The TCRS issues a publicly available financial report that includes financial statements and required supplementary information for SETHEEPP. That report may be obtained by writing to the Tennessee Department of the Treasury, Consolidated Retirement System, 10th Floor Andrew Jackson Building, Nashville, Tennessee 37243-0230, or by calling (615) 741-8202.

**Tennessee Board of Regents
Motlow State Community College
Notes to the Financial Statements (Cont.)
June 30, 2002**

Funding Policy - Plan members are noncontributory. The college is required to contribute an actuarially determined rate. The current rate is 6.19% of annual covered payroll. Contribution requirements for the college are established and may be amended by the TCRS' Board of Trustees. The college's contributions to TCRS for the years ended June 30, 2002, 2001, and 2000, were \$371,482.99, \$377,930.32, and \$314,941.22. Contributions met the requirements for each year.

B. Defined Contribution Plans

Optional Retirement Plans (ORP)

Plan Description - The college contributes to three defined contribution plans: Teachers Insurance and Annuity Association-College Retirement Equities Fund (TIAA-CREF), Aetna Life Insurance and Annuity Company, and Variable Annuity Life Insurance Company (VALIC). These plans are administered by the Tennessee Department of the Treasury. Each plan provides retirement benefits to faculty and staff who are exempt from the overtime provisions of the Fair Labor Standards Act and who waive membership in the TCRS. Benefits depend solely on amounts contributed to the plan plus investment earnings. Plan provisions are established by state statute in Title 8, Chapter 35, Part 4, *Tennessee Code Annotated*. State statutes are amended by the Tennessee General Assembly.

Funding Policy - Plan members are noncontributory. The college contributes an amount equal to 10% of the employee's base salary up to the social security wage base and 11% above the social security wage base. Contribution requirements are established and amended by state statute. The contribution made by the college to the plans was \$249,249.46 for the year ended June 30, 2002, and \$235,339.89 for the year ended June 30, 2001. Contributions met the requirements for each year.

NOTE 10. OTHER POST-EMPLOYMENT BENEFITS

The State of Tennessee administers a group health insurance program which provides post-employment health insurance benefits to eligible college retirees. This benefit is provided and administered by the State of Tennessee. The

**Tennessee Board of Regents
Motlow State Community College
Notes to the Financial Statements (Cont.)
June 30, 2002**

college assumes no liability for retiree health care programs. Information related to this plan is available at the statewide level in the *Tennessee Comprehensive Annual Financial Report*. That report may be obtained by writing to the Tennessee Department of Finance and Administration, Division of Accounts, 14th Floor William R. Snodgrass Tennessee Tower, 312 Eighth Avenue North, Nashville, Tennessee 37243-0298, or by calling (615) 741-2140.

NOTE 11. CUMULATIVE EFFECTS OF CHANGES IN ACCOUNTING PRINCIPLE

During the year ended June 30, 2002, the college implemented GASB Statement 34, *Basic Financial Statements—and Management's Discussion and Analysis—for State and Local Governments*, and GASB Statement 35, *Basic Financial Statements—and Management's Discussion and Analysis—for Public Colleges and Universities*. As a result of this implementation, the college was required to make changes in certain accounting principles, specifically the (1) adoption of capitalization criteria of \$100,000 and \$50,000 for buildings and additions, respectively; (2) change in the method of capitalizing library holdings; (3) adoption of depreciation on capital assets; and (4) recording of certain summer semester revenues between fiscal years rather than in the fiscal year in which the semester was predominantly conducted. The cumulative effects of these changes on net assets are shown below:

Adoption of capitalization criteria for buildings and additions	\$(1,223,651.84)
Change in method of capitalizing library holdings	\$(2,514,309.11)
Adoption of depreciation on capital assets	\$(5,824,600.83)
Deferred revenue recognition	\$(14,428.70)
Other	\$(1.44)

NOTE 12. INSURANCE-RELATED ACTIVITIES

The state purchases commercial insurance for real property losses above \$5 million per year and surety bond coverage on the state's officials and employees. In the past three fiscal years, the state has not had any claims filed with the commercial insurer. Designations for casualty losses in the amount of \$5 million for deductibles and \$1.356 million for incurred losses at June 30, 2002, were established in the state's general fund to provide for any property losses not covered by the commercial insurance.

**Tennessee Board of Regents
Motlow State Community College
Notes to the Financial Statements (Cont.)
June 30, 2002**

At June 30, 2002, the scheduled coverage for the college was \$23,669,800.00 for buildings and \$10,395,000.00 for contents.

The state has set aside assets for claim settlement in an internal service fund, the Claims Award Fund. This fund services all claims for risk of loss to which the state is exposed, including general liability, automobile liability, professional malpractice, and workers' compensation. The college participates in the Claims Award Fund. The fund allocates the cost of providing claims servicing and claims payment by charging a premium to the college based on a percentage of the college's expected loss costs, which include both experience and exposures. This charge considers recent trends in actual claims experience of the state as a whole. An actuarial valuation is performed as of fiscal year-end to determine the fund liability and premium allocation. Since the college participates in the Claims Award Fund, it is subject to the liability limitations under the provisions of the Tennessee Claims Commission Act, *Tennessee Code Annotated*, Section 9-8-101 et seq. Liability for negligence of the college for bodily injury and property damage is limited to \$300,000 per person and \$1,000,000 per occurrence. The limits of liability under workers' compensation are set forth in *Tennessee Code Annotated*, Section 50-6-101 et seq. Claims are paid through the state's Claims Award Fund.

The state has also set aside assets in the Employee Group Insurance Fund, an internal service fund, to provide a program of health insurance coverage for the employees of the state with the risk retained by the state. The college participates in the Employee Group Insurance Fund. The fund allocates the cost of providing claims servicing and claims payment by charging a premium to the college based on estimates of the ultimate cost of claims that have been reported but not settled and of claims that have been incurred but not reported. Employees and providers have 13 months to file medical claims.

NOTE 13. COMMITMENTS AND CONTINGENCIES

Sick Leave - The college records the cost of sick leave when paid. Generally, since sick leave (earned one day per month with unlimited accumulation) is paid only when an employee dies or is absent because of illness, injury, or related family death, there is no liability for sick leave at June 30. The dollar amount of unused sick leave was \$3,803,178.72 at June 30, 2002.

**Tennessee Board of Regents
Motlow State Community College
Notes to the Financial Statements (Cont.)
June 30, 2002**

Construction in Progress - At June 30, 2002, outstanding commitments under construction contracts totaled \$655,888.64 for the Sewer Construction project, Library Building project, and Nisbet Building Renovation project, of which \$655,888.64 will be funded by future state capital outlay appropriations.

NOTE 14. NATURAL CLASSIFICATIONS WITH FUNCTIONAL CLASSIFICATIONS

The college's operating expenses by functional classification for the year ended June 30, 2002, are as follows:

<u>Functional Classification</u>	<u>Natural Classification</u>					<u>Total</u>
	<u>Salaries</u>	<u>Benefits</u>	<u>Operating</u>	<u>Scholarships</u>	<u>Depreciation</u>	
Instruction	\$5,824,009.54	\$1,397,367.12	\$929,234.86	\$83,509.17	\$ -	\$8,234,120.69
Public service	178,845.18	46,694.89	45,613.88	-	-	271,153.95
Academic support	708,626.48	169,442.53	-	48,703.18	-	926,772.19
Student services	754,850.56	220,724.70	444,473.11	110,415.10	-	1,530,463.47
Institutional support	1,375,214.50	319,271.18	181,502.60	4,687.52	-	1,880,675.80
Operation and maintenance of plant	608,918.83	176,107.92	1,302,235.76	917.50	-	2,088,180.01
Scholarships and fellowships	3,354.86	92.22	-	2,198,747.35	-	2,202,194.43
Depreciation	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>708,966.70</u>	<u>708,966.70</u>
Total	<u>\$9,453,819.95</u>	<u>\$2,329,700.56</u>	<u>\$2,903,060.21</u>	<u>\$2,446,979.82</u>	<u>\$708,966.70</u>	<u>\$17,842,527.24</u>



**STATE OF TENNESSEE
COMPTROLLER OF THE TREASURY
DEPARTMENT OF AUDIT
DIVISION OF STATE AUDIT**

**SUITE 1500
JAMES K. POLK STATE OFFICE BUILDING
NASHVILLE, TENNESSEE 37243-0264
PHONE (615) 401-7897
FAX (615) 532-2765**

Independent Auditor's Report

May 29, 2003

The Honorable John G. Morgan
Comptroller of the Treasury
State Capitol
Nashville, Tennessee 37243

Dear Mr. Morgan:

We have audited the accompanying balance sheet of Motlow State Community College, an institution of the Tennessee Board of Regents, which is a component unit of the State of Tennessee, as of June 30, 2001, and the related statements of changes in fund balances and current funds revenues, expenditures, and other changes for the year then ended. These financial statements are the responsibility of the college's management. Our responsibility is to express an opinion on these financial statements, based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

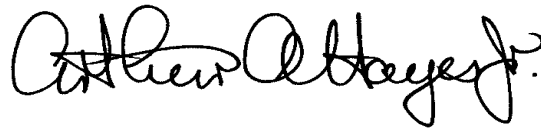
In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Tennessee Board of Regents, Motlow State Community College, as of June 30, 2001, and the changes in fund balances and the current funds revenues, expenditures, and other changes for the year then ended in conformity with accounting principles generally accepted in the United States of America.

The Honorable John G. Morgan
May 29, 2003
Page Two

As discussed in Note 11, the college implemented GASB Statement 33, *Accounting and Financial Reporting for Nonexchange Transactions*.

In accordance with *Government Auditing Standards*, we have also issued our report dated May 29, 2003, on our consideration of the college's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

Sincerely,

A handwritten signature in black ink, reading "Arthur A. Hayes, Jr." in a cursive script.

Arthur A. Hayes, Jr., CPA,
Director

AAH/sds

TENNESSEE BOARD OF REGENTS
MOTLOW STATE COMMUNITY COLLEGE
BALANCE SHEET
JUNE 30, 2001

<u>ASSETS</u>	<u>June 30, 2001</u>	<u>LIABILITIES AND FUND BALANCES</u>	<u>June 30, 2001</u>
Current funds:		Current funds:	
Unrestricted:		Unrestricted:	
General:		General:	
Cash and cash equivalents (Notes 2 and 3)	\$ 1,325,351.02	Liabilities:	
Accounts receivable (net of allowance of \$20,044.30 at June 30, 2001)	126,760.76	Accounts payable	\$ 52,060.58
Accrued interest receivable	913.38	Accrued liabilities	631,435.80
Inventories	6,976.36	Deferred revenue	275,550.13
Prepaid expenses and deferred charges	3,613.87	Compensated absences	483,530.73
Due from restricted current funds	237,579.94		
		Total liabilities	1,442,577.24
		Fund balances:	
		Nondiscretionary allocations:	
		Allocation for working capital	60,883.73
		Allocation for encumbrances	21,485.20
		Allocation for designated appropriations	13,678.02
		Allocation for designated fees	31,886.87
		Discretionary allocation:	
		Allocation for subsequent budget	555,900.00
		Allocation for compensated absences	(483,530.73)
		Unallocated	58,315.00
		Total fund balances	258,618.09
Total general	1,701,195.33	Total general	1,701,195.33
Auxiliary enterprises:		Auxiliary enterprises:	
Cash and cash equivalents (Notes 2 and 3)	186,915.81	Liabilities:	
Accounts receivable	16,679.33	Accounts payable	325.11
		Fund balances:	
		Nondiscretionary allocation:	
		Allocation for working capital	16,679.33
		Unallocated	186,590.70
		Total fund balances	203,270.03
Total auxiliary enterprises	203,595.14	Total auxiliary enterprises	203,595.14
Total unrestricted	1,904,790.47	Total unrestricted	1,904,790.47
Restricted:		Restricted:	
Accounts and grants receivable	431,311.03	Liabilities:	
		Accounts payable	92,545.44
		Accrued liabilities	4,176.66
		Due to unrestricted current funds	237,579.94
		Total liabilities	334,302.04
		Fund balance	97,008.99
Total restricted	431,311.03	Total restricted	431,311.03
Total current funds	\$ 2,336,101.50	Total current funds	\$ 2,336,101.50
Loan funds:		Loan funds:	
Cash and cash equivalents (Notes 2 and 3)	\$ 2,166.90	Fund balances:	
		U.S. government grants refundable	\$ 1.44
		Institutional funds:	
		Restricted - matching	0.17
		Restricted - other	2,165.29
Total loan funds	\$ 2,166.90	Total loan funds	\$ 2,166.90

TENNESSEE BOARD OF REGENTS
MOTLOW STATE COMMUNITY COLLEGE
BALANCE SHEET
JUNE 30, 2001

	<u>June 30, 2001</u>		<u>June 30, 2001</u>
<u>ASSETS</u>		<u>LIABILITIES AND FUND BALANCES</u>	
Plant funds:		Plant funds:	
Unexpended plant:		Unexpended plant:	
Cash and cash equivalents (Notes 2 and 3)	\$ 575,167.27	Liabilities:	
Accounts receivable	3,500.00	Accounts payable	\$ 34,592.99
LGIP deposit - capital projects	<u>200,000.00</u>		
		Fund balance:	
		Unrestricted (Note 5)	<u>744,074.28</u>
Total unexpended plant	<u>778,667.27</u>	Total unexpended plant	<u>778,667.27</u>
Renewals and replacements:		Renewals and replacements:	
Cash and cash equivalents (Notes 2 and 3)	<u>887,533.71</u>	Fund balance:	
		Unrestricted (Note 5)	<u>887,533.71</u>
Total renewals and replacements	<u>887,533.71</u>	Total renewals and replacements	<u>887,533.71</u>
Investment in plant:		Investment in plant:	
Land	171,100.00	Fund balance:	
Buildings	13,843,256.80	Net investment in plant	<u>24,705,950.63</u>
Improvements other than buildings	2,304,666.46		
Equipment	1,444,093.09		
Library books	2,578,800.00		
Other library holdings	620,923.00		
Construction in progress	<u>3,743,111.28</u>		
Total investment in plant	<u>24,705,950.63</u>	Total investment in plant	<u>24,705,950.63</u>
Total plant funds	<u>\$ 26,372,151.61</u>	Total plant funds	<u>\$ 26,372,151.61</u>
Agency funds:		Agency funds:	
Foundation:		Foundation:	
Cash and cash equivalents (Notes 2 and 3)	\$ 534,095.12	Liabilities:	
Investments (Note 4)	2,583,612.42	Accounts payable	\$ 3,528.61
Accrued interest receivable	3,213.57	Deposits held in custody for foundation	<u>3,440,892.50</u>
Accounts receivable	3,500.00		
Other assets	<u>320,000.00</u>		
Total foundation	<u>3,444,421.11</u>	Total foundation	<u>3,444,421.11</u>
Nonfoundation:		Nonfoundation:	
Cash and cash equivalents (Notes 2 and 3)	<u>910,676.31</u>	Liabilities:	
		Deposits held in custody for others	<u>910,676.31</u>
Total nonfoundation	<u>910,676.31</u>	Total nonfoundation	<u>910,676.31</u>
Total agency funds	<u>\$ 4,355,097.42</u>	Total agency funds	<u>\$ 4,355,097.42</u>

The notes to the financial statements are an integral part of this statement.

TENNESSEE BOARD OF REGENTS
MOTLOW STATE COMMUNITY COLLEGE
STATEMENT OF CHANGES IN FUND BALANCES
FOR THE YEAR ENDED JUNE 30, 2001

	Current Funds			Plant Funds		
	<u>Unrestricted</u>	<u>Restricted</u>	<u>Loan Funds</u>	<u>Unexpended</u>	<u>Renewals and Replacements</u>	<u>Investment in Plant</u>
REVENUES AND OTHER ADDITIONS						
Unrestricted current fund revenues	\$ 12,593,534.18	\$ -	\$ -	\$ -	\$ -	\$ -
Auxiliary enterprise revenues	134,932.30	-	-	-	-	-
State appropriations	-	96,570.00	-	4,443,489.26	-	-
Federal grants and contracts	-	4,984,471.57	-	-	-	-
State grants and contracts	-	185,063.74	-	-	-	-
Private gifts	-	65,456.88	-	8,500.00	-	5,471.97
Investment income	-	-	-	10,954.66	48,224.32	-
Interest on loans receivable	-	-	37.50	-	-	-
Library holdings revaluation	-	-	-	-	-	162,593.29
Expended for plant facilities (including \$6,506.98 charged to current fund expenditures)	-	-	-	-	-	3,477,533.84
Other	-	-	-	6,978.50	5,055.66	-
Total revenues and other additions	12,728,466.48	5,331,562.19	37.50	4,469,922.42	53,279.98	3,645,599.10
EXPENDITURES AND OTHER DEDUCTIONS						
Educational and general expenditures	12,603,345.25	5,149,752.51	-	-	-	-
Auxiliary enterprise expenditures	7,053.74	-	-	-	-	-
Indirect costs recovered	-	78,102.69	-	-	-	-
Refunded to grantors	-	24,549.05	33.50	-	-	-
Administrative and collection costs	-	-	2.50	-	-	-
Expended for plant facilities	-	-	-	3,413,799.10	57,227.76	-
Expended for noncapital items	-	-	-	1,207,316.90	39,134.11	-
Disposal of plant facilities	-	-	-	-	-	636,600.40
Total expenditures and other deductions	12,610,398.99	5,252,404.25	36.00	4,621,116.00	96,361.87	636,600.40
TRANSFERS BETWEEN FUNDS-ADDITIONS (DEDUCTIONS)						
Nonmandatory:						
Unrestricted current funds	3.72	-	(3.72)	-	-	-
Total transfers	3.72	-	(3.72)	-	-	-
Net increases (decreases) for the year	118,071.21	79,157.94	(2.22)	(151,193.58)	(43,081.89)	3,008,998.70
Fund balances at beginning of year	343,816.91	17,851.05	2,169.12	895,267.86	930,615.60	21,696,951.93
Fund balances at end of year	\$ <u>461,888.12</u>	\$ <u>97,008.99</u>	\$ <u>2,166.90</u>	\$ <u>744,074.28</u>	\$ <u>887,533.71</u>	\$ <u>24,705,950.63</u>

The notes to the financial statements are an integral part of this statement.

TENNESSEE BOARD OF REGENTS
MOTLOW STATE COMMUNITY COLLEGE
STATEMENT OF CURRENT FUNDS REVENUES, EXPENDITURES, AND OTHER CHANGES
FOR THE YEAR ENDED JUNE 30, 2001

	<u>Unrestricted</u>	<u>Restricted</u>	<u>Total</u>
<u>REVENUES</u>			
Tuition and fees	\$ 3,939,069.39	\$ -	\$ 3,939,069.39
State appropriations	8,308,500.00	96,570.00	8,405,070.00
Federal grants and contracts	78,102.69	4,984,471.57	5,062,574.26
State grants and contracts	-	185,063.74	185,063.74
Private gifts	-	65,456.88	65,456.88
Sales and services of educational activities	521.03	-	521.03
Sales and services of auxiliary enterprises	134,932.30	-	134,932.30
Investment income	170,347.85	-	170,347.85
Other sources	96,993.22	-	96,993.22
	<hr/>	<hr/>	<hr/>
Total current revenues	12,728,466.48	5,331,562.19	18,060,028.67
<u>EXPENDITURES AND TRANSFERS</u>			
Educational and general:			
Expenditures:			
Instruction	7,364,274.01	1,404,661.03	8,768,935.04
Public service	88,818.01	1,258,908.99	1,347,727.00
Academic support	692,148.69	17,073.58	709,222.27
Student services	1,284,012.18	73,936.30	1,357,948.48
Institutional support	1,720,298.17	15,499.87	1,735,798.04
Operation and maintenance of plant	1,367,743.05	15,731.74	1,383,474.79
Scholarships and fellowships	86,051.14	2,363,941.00	2,449,992.14
	<hr/>	<hr/>	<hr/>
Total educational and general expenditures	12,603,345.25	5,149,752.51	17,753,097.76
Nonmandatory transfer:			
Loan funds	(3.72)	-	(3.72)
	<hr/>	<hr/>	<hr/>
Total educational and general	12,603,341.53	5,149,752.51	17,753,094.04
Auxiliary enterprises:			
Expenditures	7,053.74	-	7,053.74
	<hr/>	<hr/>	<hr/>
Total auxiliary enterprises	7,053.74	-	7,053.74
	<hr/>	<hr/>	<hr/>
Total expenditures and transfers	12,610,395.27	5,149,752.51	17,760,147.78
<u>OTHER DEDUCTIONS</u>			
Refunded to grantors	-	(24,549.05)	(24,549.05)
Indirect costs recovered	-	(78,102.69)	(78,102.69)
	<hr/>	<hr/>	<hr/>
Net increases in fund balances	\$ 118,071.21	\$ 79,157.94	\$ 197,229.15

The notes to the financial statements are an integral part of this statement.

**Tennessee Board of Regents
Motlow State Community College
Notes to the Financial Statements
June 30, 2001**

NOTE 1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Reporting Entity

The college is a part of the State University and Community College System of Tennessee (Tennessee Board of Regents). This system is a component unit of the State of Tennessee because the state appoints a majority of the system's governing body and provides financial support; the system is discretely presented in the *Tennessee Comprehensive Annual Financial Report*.

Basis of Presentation

The financial statements have been prepared in conformity with accounting principles generally accepted in the United States of America as prescribed by the Governmental Accounting Standards Board (GASB). The college uses the AICPA College Guide model for accounting and financial reporting.

Basis of Accounting

The financial statements have been prepared on the accrual basis, except that depreciation on plant assets is not recorded and revenues and expenditures of an academic term encompassing more than one fiscal year are reported solely in the fiscal year in which the term is predominantly conducted. All restricted resources are recorded as additions to the fund balances of the appropriate fund groups. Restricted current resources are then recorded as revenues during the period in which they are expended or all eligibility requirements have been met. The statement of current funds revenues, expenditures, and other changes is a statement of financial activities of current funds related to the current reporting period. It does not purport to present the results of operations or the net income or loss for the period, as would a statement of income or a statement of revenues and expenses.

To the extent that current funds are used to finance plant assets, the funds are accounted for as (1) expenditures, for normal replacement of movable equipment and library holdings; (2) mandatory transfers, for required debt amortization and interest; and (3) nonmandatory transfers, for all other cases.

Fund Accounting

To ensure observance of limitations and restrictions placed on the use of the resources available, the college maintains accounts in accordance with the principles of fund

Tennessee Board of Regents
Motlow State Community College
Notes to the Financial Statements (Cont.)
June 30, 2001

accounting. With this procedure, resources for various purposes are classified for accounting and reporting purposes into funds for specified activities or objectives. Separate accounts are maintained for each fund; however, in the accompanying financial statements, funds with similar characteristics have been combined into fund groups. Accordingly, all financial transactions have been recorded and reported by fund group.

Within each fund group, fund balances restricted by outside sources are so indicated and are distinguished from unrestricted funds which are allocated to specific purposes by the governing board. Externally restricted funds may be used only in accordance with the purposes established by the source of such funds and contrast with unrestricted funds over which the governing board retains full control to use in achieving any of its institutional purposes.

All gains and losses arising from the sale, collection, or other disposition of investments and other noncash assets are accounted for in the fund that owned such assets. Ordinary income derived from investments, receivables, and the like is accounted for in the fund owning such assets. All other unrestricted revenue is accounted for in the unrestricted current funds. Restricted gifts, grants, appropriations, and other restricted resources are accounted for in the appropriate restricted funds. Restricted current funds are reported as revenues when expended or all eligibility requirements have been met and expenditures when expended for current operating purposes.

Current Funds

Unrestricted current funds consist of those funds over which the college retains full control for use in achieving its authorized institutional purposes. Auxiliary enterprises activities are included in unrestricted current funds and include the bookstore, food services, and vending services. Restricted current funds are externally restricted and may be used only in accordance with the purposes established by their source.

Loan Funds

Loan funds consist of resources made available for student loans.

**Tennessee Board of Regents
Motlow State Community College
Notes to the Financial Statements (Cont.)
June 30, 2001**

Plant Funds

The plant funds group consists of (1) funds set aside for the acquisition of physical properties for institutional purposes; (2) funds set aside for the renewal and replacement of institutional properties; and (3) funds expended for, and thus invested in, institutional properties.

Agency Funds

In handling these funds, the college acts solely as an agent; consequently, transactions of these funds do not affect the college's operating statements.

LGIP Deposit – Capital Projects

Payments related to the college's capital projects are made by the State of Tennessee's Department of Finance and Administration. The college's estimated local share of the cost of each project is held in a separate Local Government Investment Pool (LGIP) account. As expenditures are incurred, funds are withdrawn from the LGIP account by the Tennessee Board of Regents and transferred to the Department of Finance and Administration. The funds in the account are not available to the college for any other purpose until the project is completed and any remaining funds are released by the Tennessee Board of Regents.

Inventories

Inventories are valued at the lower of cost or market on a first-in, first-out basis.

Compensated Absences

The college's employees accrue annual leave at varying rates, depending on length of service or classification. Some employees also earn compensatory time. The amount of these liabilities and their related benefits are recorded in the current funds. Since the liability is expected to be funded primarily from future unrestricted revenue sources, a related allocation has been made to the current fund balances so that these fund balances reflect current available funds.

Allocation for Working Capital

The unrestricted fund balance is allocated for the amount of working capital. "Working capital" is defined as the total of all petty cash, accounts receivable, inventories, and prepaid expenses in the unrestricted fund at the balance sheet date, except for student receivables credited to deferred revenue, accrued interest, and

Tennessee Board of Regents
Motlow State Community College
Notes to the Financial Statements (Cont.)
June 30, 2001

amounts due on federal letters of credit, less the accrued benefits on accrued faculty salaries.

Plant Assets

The physical plant and equipment are stated at cost at date of purchase or at fair value at date of donation. Library books are valued at \$48 per volume, and other library holdings are valued at various standardized values, which approximate current costs. Depreciation on the physical plant and equipment is not recorded.

In the case of service departments, the college charges renewal and replacement of plant assets to current expenditures; these charges are also reported as additions to funds for renewals and replacements.

Under a contract with the Tennessee Department of Labor and Workforce Development, the college is a service provider for the Local Workforce Investment Area in Workforce Investment Area 6 of the State of Tennessee. The title to all the equipment purchased by the college under the provisions of the Workforce Investment Act resides with the U.S. government. Therefore, this equipment is not included in the college's plant fund assets.

Motlow State Community College Foundation

The college is the sole beneficiary of the Motlow State Community College Foundation. This private, nonprofit foundation is controlled by a board independent of the college. The financial records, investments, and other financial transactions are handled by the college, and the assets and liabilities of the foundation are included in the agency funds on the college's balance sheet.

Federal Direct Loan Program

The college participates in the Federal Direct Loan Program. Activity of this program is not included in the financial statements of the college. The college acts as an agent for the U.S. government in disbursing funds to students.

**Tennessee Board of Regents
Motlow State Community College
Notes to the Financial Statements (Cont.)
June 30, 2001**

NOTE 2. CASH AND CASH EQUIVALENTS

In addition to demand deposits and petty cash on hand, this classification includes instruments which are readily convertible to known amounts of cash and which have original maturities of three months or less.

At June 30, 2001, cash and cash equivalents consisted of \$404,024.56 in bank accounts, \$750.00 of petty cash on hand, \$5,385.13 in money market mutual funds, and \$4,011,746.45 in the State of Tennessee Local Government Investment Pool administered by the State Treasurer.

NOTE 3. DEPOSITS

The laws of the State of Tennessee require that collateral be pledged to secure all uninsured deposits. Tennessee Board of Regents policies require that the market value of collateral pledged equal 115%, 100%, or 90% of the uninsured deposits at financial institutions participating in the collateral pool and 105% of the uninsured deposits at all other financial institutions. The pledge level for financial institutions participating in the collateral pool is based on financial criteria set by the Collateral Pool Board with the financially strongest institutions being eligible for the lowest pledge level.

The college's bank accounts are in financial institutions which participate in the bank collateral pool administered by the State Treasurer. The securities pledged to protect these accounts are pledged in the aggregate rather than against each individual account. The members of the pool may be required by agreement to pay an assessment to cover any deficiency. Under this additional assessment agreement, public fund accounts covered by the pool are considered to be insured for purposes of credit risk disclosure. Certificates of deposit held for the Motlow State Community College Foundation are covered by FDIC insurance.

The college also has deposits in the Local Government Investment Pool (LGIP) administered by the State Treasurer. The LGIP is part of the Pooled Investment Fund. The fund's investment policy and custodial credit risk are presented in the *Tennessee Comprehensive Annual Financial Report*. That report may be obtained by writing to the Tennessee Department of Finance and Administration, Division of Accounts, 14th

Tennessee Board of Regents
Motlow State Community College
Notes to the Financial Statements (Cont.)
June 30, 2001

Floor William R. Snodgrass Tennessee Tower, 312 Eighth Avenue North, Nashville,
Tennessee 37243-0298, or by calling (615) 741-2140.

NOTE 4. INVESTMENTS

The college is authorized by statute to invest funds in accordance with Tennessee Board of Regents policies. Under the current policy, funds other than endowments may be invested only in obligations of the United States or its agencies backed by the full faith and credit of the United States; repurchase agreements for United States securities; certificates of deposit in banks and savings and loan associations; bankers' acceptances; commercial paper; money market mutual funds; and the State of Tennessee Local Government Investment Pool. The policy requires that investments of endowments in equity securities be limited to funds from private gifts or other sources external to the college and that endowment investments be prudently diversified. The Motlow State Community College Foundation is authorized to invest funds in accordance with its board of directors' policies. All investments permitted to be reported at fair value under GASB Statement 31 are reported at fair value, including those with a maturity date of one year or less at the time of purchase. Certificates of deposit have been included with other deposits in Note 3 to determine the adequacy of collateral security pledged.

The foundation's investments are categorized below to indicate the level of risk assumed by the foundation at year-end. Category 1 consists of insured or registered investments or investments for which the securities are held by the foundation or its agent in the foundation's name. Category 2 consists of uninsured and unregistered investments for which the securities are held by the counterparty's trust department or agent in the foundation's name. Category 3 consists of uninsured and unregistered investments for which the securities are held by the counterparty or by its trust department or agent but not in the foundation's name.

<u>June 30, 2001</u>	<u>Fair Value</u>
Category 2:	
U.S. government securities	\$708,550.83
Investments not susceptible to credit risk categorization:	
Mutual funds	1,480,446.72

**Tennessee Board of Regents
Motlow State Community College
Notes to the Financial Statements (Cont.)
June 30, 2001**

Certificates of deposit classified as investments	400,000.00
Amount classified as cash equivalents	<u>(5,385.13)</u>
Total investments on the balance sheet	<u><u>\$2,583,612.42</u></u>

NOTE 5. PLANT FUND ENCUMBRANCES

Plant fund encumbrances outstanding at June 30, 2001, amounted to \$203,275.96 for unexpended plant and \$2,137.20 for renewals and replacements.

NOTE 6. PENSION PLANS

A. Defined Benefit Plan

Tennessee Consolidated Retirement System

Plan Description - The college contributes to the State Employees, Teachers, and Higher Education Employees Pension Plan (SETHEEPP), a cost-sharing, multiple-employer, defined benefit pension plan administered by the Tennessee Consolidated Retirement System (TCRS). TCRS provides retirement, death, and disability benefits as well as annual cost-of-living adjustments to plan members and their beneficiaries. Title 8, Chapters 34-37, *Tennessee Code Annotated*, establishes benefit provisions. State statutes are amended by the Tennessee General Assembly.

The TCRS issues a publicly available financial report that includes financial statements and required supplementary information for SETHEEPP. That report may be obtained by writing to the Tennessee Department of the Treasury, Consolidated Retirement System, 10th Floor Andrew Jackson Building, Nashville, Tennessee 37243-0230, or by calling (615) 741-8202.

Funding Policy - Plan members are noncontributory. The college is required to contribute an actuarially determined rate. The current rate is 6.19% of annual covered payroll. Contribution requirements for the college are established and may be amended by the TCRS' Board of Trustees. The college's contributions to TCRS for the years ended June 30, 2001, 2000, and 1999, were \$377,930.32,

**Tennessee Board of Regents
Motlow State Community College
Notes to the Financial Statements (Cont.)
June 30, 2001**

\$314,941.22, and \$320,225.53. Contributions met the requirements for each year.

B. Defined Contribution Plans

Optional Retirement Plans (ORP)

Plan Description - The college contributes to three defined contribution plans: Teachers Insurance and Annuity Association-College Retirement Equities Fund (TIAA-CREF), Aetna Life Insurance and Annuity Company, and Variable Annuity Life Insurance Company (VALIC). These plans are administered by the Tennessee Department of the Treasury. Each plan provides retirement benefits to faculty and staff who are exempt from the overtime provisions of the Fair Labor Standards Act and who waive membership in the TCRS. Benefits depend solely on amounts contributed to the plan plus investment earnings. Plan provisions are established by state statute in Title 8, Chapter 35, Part 4, *Tennessee Code Annotated*. State statutes are amended by the Tennessee General Assembly.

Funding Policy - Plan members are noncontributory. The college contributes an amount equal to 10% of the employee's base salary up to the social security wage base and 11% above the social security wage base. Contribution requirements are established and amended by state statute. The contribution made by the college to the plans was \$235,339.89 for the year ended June 30, 2001, and \$230,609.57 for the year ended June 30, 2000. Contributions met the requirements for each year.

NOTE 7. OTHER POST-EMPLOYMENT BENEFITS

The State of Tennessee administers a group health insurance program which provides post-employment health insurance benefits to eligible college retirees. This benefit is provided and administered by the State of Tennessee. The college assumes no liability for retiree health care programs. Information related to this plan is available at the statewide level in the *Tennessee Comprehensive Annual Financial Report*. That report may be obtained by writing to the Tennessee Department of Finance and Administration, Division of Accounts, 14th Floor William R. Snodgrass Tennessee Tower, 312 Eighth Avenue North, Nashville, Tennessee 37243-0298, or by calling (615) 741-2140.

Tennessee Board of Regents
Motlow State Community College
Notes to the Financial Statements (Cont.)
June 30, 2001

NOTE 8. INSURANCE-RELATED ACTIVITIES

The state purchases commercial insurance for real property losses above \$5 million per year and surety bond coverage on the state's officials and employees. During the year ended June 30, 1999, the state incurred losses in Clarksville and Jackson due to damage from tornadoes. The final settlement of \$8.96 million for the tornado damage in Clarksville was made during the year ended June 30, 2001. In the years ended June 30, 2000, and June 30, 1998, the state did not have any claims filed with the commercial insurer. A designation for casualty losses in the amount of \$8.731 million at June 30, 2001, and \$7.256 million at June 30, 2000, was established in the state's general fund to provide for any property losses not covered by the commercial insurance.

At June 30, 2001, the scheduled coverage for the college was \$23,725,100 for buildings and \$10,692,000 for contents.

The state has set aside assets for claim settlement in an internal service fund, the Claims Award Fund. This fund services all claims for risk of loss to which the state is exposed, including general liability, automobile liability, professional malpractice, and workers' compensation. The college participates in the Claims Award Fund. The fund allocates the cost of providing claims servicing and claims payment by charging a premium to the college based on a percentage of the college's expected loss costs, which include both experience and exposures. This charge considers recent trends in actual claims experience of the state as a whole. An actuarial valuation is performed as of fiscal year-end to determine the fund liability and premium allocation. Since the college participates in the Claims Award Fund, it is subject to the liability limitations under the provisions of the Tennessee Claims Commission Act, *Tennessee Code Annotated*, Section 9-8-101 et seq. Liability for negligence of the college for bodily injury and property damage is limited to \$300,000 per person and \$1,000,000 per occurrence. The limits of liability under workers' compensation are set forth in *Tennessee Code Annotated*, Section 50-6-101 et seq. Claims are paid through the state's Claims Award Fund.

The state has also set aside assets in the Employee Group Insurance Fund, an internal service fund, to provide a program of health insurance coverage for the employees of the state with the risk retained by the state. The college participates in the Employee Group Insurance Fund. The fund allocates the cost of providing claims servicing and claims payment by charging a premium to the college based on estimates of the

Tennessee Board of Regents
Motlow State Community College
Notes to the Financial Statements (Cont.)
June 30, 2001

ultimate cost of claims that have been reported but not settled and of claims that have been incurred but not reported. Employees and providers have 13 months to file medical claims.

NOTE 9. FEDERAL STUDENT FINANCIAL ASSISTANCE

The restricted expenditure function scholarships and fellowships includes \$2,204,503.00 of federal financial assistance for students. These programs include Federal Pell Grants and Federal Supplemental Educational Opportunity Grants.

NOTE 10. COMMITMENTS AND CONTINGENCIES

Sick Leave - The college records the cost of sick leave when paid. Generally, since sick leave (earned one day per month with unlimited accumulation) is paid only when an employee dies or is absent because of illness, injury, or related family death, there is no liability for sick leave at June 30. The dollar amount of unused sick leave was \$3,429,525.49 at June 30, 2001.

Operating Leases - The college has entered into various operating leases for buildings and equipment. Such leases will probably continue to be required. Expenditures under operating leases for real property were \$51,386.58 for the year ended June 30, 2001. All operating leases are cancelable at the lessee's option.

Construction in Progress - At June 30, 2001, outstanding commitments under construction contracts totaled \$4,273,424.82 for the Nursing and Technology Building, the Library Building, the Center for Advanced Technology, and the Floor Structure Replacement, Building System Equipment, ADA Improvements, Nisbet Building Renovation, and Sewer Construction projects, of which \$4,273,424.82 will be funded by future state capital outlay appropriations.

NOTE 11. CHANGE IN ACCOUNTING PRINCIPLE

During the year ended June 30, 2001, the college implemented GASB Statement 33, *Accounting and Financial Reporting for Nonexchange Transactions*. No restatement of beginning fund balance was necessary.

Tennessee Board of Regents
Motlow State Community College
Notes to the Financial Statements (Cont.)
June 30, 2001

NOTE 12. NEW ACCOUNTING PRONOUNCEMENTS

In November 1999, the Governmental Accounting Standards Board (GASB) issued Statement 35, *Basic Financial Statements—and Management's Discussion and Analysis—for Public Colleges and Universities*, an amendment of GASB Statement No. 34. As originally issued, Statement 34, *Basic Financial Statements—and Management's Discussion and Analysis—for States and Local Governments* was not applicable to public institutions. Rather than issuing separate standards, GASB decided to provide financial reporting guidance for public institutions by amending Statement 34 to extend its applicability to them. Statement 35 supersedes GASB Statement 15, which currently allows public institutions to choose one of two models when preparing their financial statements—the AICPA College Guide model or the governmental model. As component units of a state government, most public institutions will implement GASB Statement 35 at the same time as the state government implements GASB Statement 34.

Under the provisions of the GASB standards, the college is permitted to report as a special purpose government engaged only in business-type activities (BTA). BTA reporting will require the college to present only the basic financial statements and required supplementary information (RSI) for an enterprise fund that includes management's discussion and analysis; a statement of net assets or a balance sheet; a statement of revenues, expenses, and changes in net assets; a statement of cash flows; notes to the financial statements; and other applicable RSI. The required basic financial statements described above are prepared using the economic resources measurement focus and the accrual basis of accounting. Fund financial statements are not required for BTA reporting.

Statement 34 will also require the college to retroactively and prospectively report all capital assets, net of accumulated depreciation, including infrastructure assets (long-lived capital assets such as roads and bridges) in the statement of net assets and report depreciation expense in the statement of revenues, expenses, and changes in net assets. Retroactive reporting of capital assets will require a prior-period adjustment to net assets. Management has not yet determined the effect of the implementation of this statement on the college's financial statements.